

WEBSTER COUNTY SCHOOL DISTRICT
GENERAL PURPOSE FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2008

WEBSTER COUNTY SCHOOL DISTRICT
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for the year ended June 30, 2008

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Michael L. Overby, CPA, PLLC

Certified Public Accountant

2201 Westerfield Drive, Suite C

Providence, KY. 42450

INDEPENDENT AUDITOR'S REPORT

State Committee for School District Audits
Members of the Board of Education
Webster County School District
Dixon, Kentucky

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Webster County School District, as of June 30, 2008 and for the year then ended, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Webster County School District's management. My responsibility is to express an opinion on these financial statements based on my audit.


I conducted my audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the provisions of Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in Appendix I (*General Audit Requirements*), Appendix II (*State Audit Requirements*), and Appendix III (*Electronic Submission*) of the *Independent Auditor's Contract*. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Webster County School District as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued a report dated December 12, 2008 on my consideration of Webster County School District's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of my audit.

The management's discussion and analysis on pages 3 through 6 and budgetary comparison information on pages 35 through 36 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

My audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Webster County School District's basic financial statements. The combining statements and individual non major fund schedules as listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Webster County School District. The combining statements and individual fund schedules and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Michael L. Overby CPA". The signature is fluid and cursive, with the letters "CPA" written in a slightly larger, more distinct font at the end.

Michael L. Overby CPA, PLLC
December 12, 2008

**WEBSTER COUNTY SCHOOL DISTRICT
DIXON, KENTUCKY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
FOR THE YEAR ENDING JUNE 30, 2008**

As management of the Webster County School District (District or School District), we offer readers of the District's financial statements this narrative and analysis of the financial activities of the District for the fiscal year ending June 30, 2008. We encourage readers to consider the information presented here in conjunction with the additional information found in the body of the audit.

The Management's Discussion and Analysis (MD & A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* issued in June 1999.

FINANCIAL HIGHLIGHTS

1. The ending cash balance on June 30, 2008 for the District was \$ 1,761,601. \$249,300 less than the previous year, this difference can be attributed to the costs of absorbing the former Providence Independent School District. An analysis of Providence's books and programs early in the fiscal year revealed that significant expenditures would be necessary in order to provide adequate instructional and instructional-support programs that were equitable with those already existing at the various campuses in Webster County.
2. The District contingency fund began the year with \$ 383,182 and ended with \$407,105. Changes in the amount were re-investments the Board made into the curriculum or into facilities during the year as needs were identified.
3. Interest rates, while climbing, remained low and generated only \$74,000 in Fund 1 and an additional \$ 42,500 in various restricted funds.
4. In total, net assets increased by \$ 728,361. Net assets of governmental activities increased by \$ 795,059, and net assets of business-type activity decreased by \$ 66,698. These increases and decreases are primarily the result of recording fixed assets and the additional expenses for operation of food services.
5. The district continued to budget \$ 8,300 to cover potential costs against any adverse settlement in a single complaint filed four years ago. All other litigation has been withdrawn, settled or negotiated without expense to the District.
6. General revenues were \$ 15,313,650 in revenue or 79.74 % of all government revenues. Program specific revenues in the form of grants and contributions accounted for \$3,890,431 or 20.26% of total revenues amounting to \$ 19,204,081.
7. The net assets of governmental activities increased by \$ 795,059.
8. The school district had \$ 14,874,050 in expenses in the General Fund. This was \$94,201 in excess of General Fund revenues.
9. Information about the school district's major funds starts on page 11. These funds are accounted for using the modified accrual basis of accounting. All governmental funds had total revenues and the financing sources of \$15,191,768 and expenditures and other

financing uses of \$15,083,289. Net changes in fund balances for the year were most significant in the General Fund (\$ 509,321), and the Construction Fund (\$ 213,295).

10. On June 30, 2008, the School District had \$ 8,474,200 in bonds outstanding, of which amount \$2,419,633 is to be paid from the SFCC funding provided by the State of Kentucky. \$ 713,625 in principal and interest will be required to service the outstanding bonds during the next year. No bonds were refunded or refinanced during the year.

Government Activities

Instruction comprises 53.66% of governmental expenses. Support services expenses make up 43.10% of governmental expenses. Debt Service was 2.18%. The remaining unallocated expense for community service account accounts for the remaining 1.06% of the total governmental expense.

The Statement of Activities shows the cost of program services and charges for services and grants offsetting those services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State entitlements.

Business-Type Activities

The only business-type activity is the food service operation. This program had revenues of \$1,410,377 and expenses of \$1,479,924 for fiscal year 2008. Of the revenues, \$ 409,084 came from operating revenues, \$994,797 came from State and Federal grants, and the remaining \$6,496 came from investment earnings. The school district will continue to monitor the charges and costs of this activity. If it becomes necessary, the district will increase the charges for this activity.

Overview of Financial Statements

This discussion and analysis is intended to serve as an introduction to the district's basic financial statements. The district's basic financial statements have three components: (1) government-wide financial statements; (2) fund financial statements; and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances in a manner similar to a private-sector business.

The statement of net assets presents information of all the district's assets and liabilities, with the differences between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the district's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the district include instruction, support services, operation and maintenance of plant, student transportation and operation of non-institutional services. Fixed

assets and related debt is also supported by taxes and intergovernmental revenues. The government-wide financial statements can be found on pages 7 - 8 of this report.

Fund Financial statements A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities and objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three (3) categories: governmental, proprietary, and fiduciary. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary fund is for food service operations. All other activities of the District are included in the governmental funds. The basic governmental fund financial statements will be found on pages 9 - 12 of this report.

Notes to the financial statements The notes provide additional information that is essential to a full understanding of the data provided in the governmental-wide and fund financial statements. The notes to the financial statements can be found on pages 18 - 34 of this report.

GOVERNMENTAL-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$ 6.6 million as of June 30, 2008.

The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress) less any related debt used to acquire those assets that is still outstanding. The district uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the district's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate the liabilities.

The district's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

Net Assets for the period ending June 30, 2008

The current year's financial statements, like last year's reflect changes imposed from adoption and use of principles included in GASB 34.

	2008	2007
Current Assets	\$ 2,295,484	\$ 2,772,151
Noncurrent Assets	14,310,406	12,481,976
Total Assets	16,605,890	15,254,127
Current Liabilities	1,062,684	1,429,466
Noncurrent Liabilities	8,896,789	7,906,605
Total Liabilities	\$ 9,959,473	\$ 9,336,071
Net Assets		
Investment in Capital Assets (net of debt)	4,862,095	4,183,292
Restricted	832,237	1,015,651
Unreserved Fund Balance	952,085	719,113
Total Net Assets	\$ 6,646,417	\$ 5,918,056

Comments on Budget Comparisons

The School District's budget is prepared according to Kentucky law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the General Fund. The Kentucky Department of Education requires a zero-based budget with any remaining fund balance shown as a contingency expense in the budget process. The mandated minimum contingency to be budgeted is two (2) percent. The District ended the year with \$383,182 remaining in contingency.

A variance comparison is presented between the final budgeted amounts and the actual (GAAP Basis) amounts. For the General Fund, revenues were budgeted at \$10,574,043 with actual amounts of \$10,464,274. Budgeted expenditures of \$11,681,921 compare with actual expenditures of \$11,526,072, a difference of \$155,849. Of this difference \$383,182 was the budgeted contingency expense

	2008	2007
Revenues:		
Program Revenues:		
Charges for Services	\$ 409,084	\$ 444,333
Intergovernmental:		
Local	300	-
Indirect Federal	2,398,215	1,577,964
State	2,486,713	1,580,180
General Revenues:		
From Local Sources:		
Taxes	3,804,363	3,098,335
Investments	116,655	174,645
Other Sources	240,767	167,385
Intergovernmental:		
State	11,151,865	9,879,488
Total Revenues	20,607,962	16,922,330
Expenses:		
Instruction	9,613,248	8,329,092
Student Support	949,389	705,682
Instructional Support	1,557,085	1,410,175
District Administration	473,920	438,305
School Administration	968,730	701,262
Business Support	373,975	337,887
Plant Operations	2,173,875	1,552,860
Student Transportation	1,225,558	1,024,371
Community Support	187,504	129,948
Food Service Administration	1,479,924	1,143,786
Facilities Acquisition & Construction	-	73,008
Non-Instructional		
Debt Service:		
Interest	391,821	322,465
Depreciation	888,765	714,043
Total Expenditures	20,283,794	16,882,884
Change in Net Assets	324,168	39,446
Beginning Net Assets	6,322,249	5,878,604
Ending Net Assets	\$ 6,646,417	\$ 5,918,050

WEBSTER COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2008

	Governmental Activities	Business-Type Activities	Total
Assets			
Current Assets			
Cash and Cash Equivalents	\$ 1,219,452	\$ 69,470	\$ 1,288,922
Inventory	-	50,962	50,962
Receivables:			
Taxes	125,432	-	125,432
Accounts Receivable	2,944	-	2,944
Intergovernmental - State	24,831	-	24,831
Intergovernmental - Federal	160,287	-	160,287
Intergovernmental - Indirect Federal	-	169,427	169,427
Restricted Cash	472,679	-	472,679
Total Current Assets	<u>2,005,625</u>	<u>289,859</u>	<u>2,295,484</u>
Noncurrent Assets			
Capital Assets, Net of Accumulated Depreciation	14,161,367	149,039	14,310,406
Total Noncurrent Assets	<u>14,161,367</u>	<u>149,039</u>	<u>14,310,406</u>
Total Assets	<u>16,166,992</u>	<u>438,898</u>	<u>16,605,890</u>
Liabilities			
Current Liabilities			
Accounts Payable	73,766	4,487	78,253
Deferred Revenue	39,219	-	39,219
Payable from Restricted Assets	2,190	-	2,190
Current Portion of Bond Obligations	713,625	-	713,625
Current Portion of Capital Lease Obligations	177,897	-	177,897
Current Portion of Accrued Sick Leave	50,000	1,500	51,500
Total Current Liabilities	<u>1,056,697</u>	<u>5,987</u>	<u>1,062,684</u>
Noncurrent Liabilities			
Noncurrent Portion of Bond Obligations	7,760,575	-	7,760,575
Noncurrent Portion of Capital Lease Obligations	796,214	-	796,214
Noncurrent Portion of Accrued Sick Leave	327,000	13,000	340,000
Total Noncurrent Liabilities	<u>8,883,789</u>	<u>13,000</u>	<u>8,896,789</u>
Total Liabilities	<u>9,940,486</u>	<u>18,987</u>	<u>9,959,473</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	4,713,056	149,039	4,862,095
Restricted for:			
Encumbrances	44,369	-	44,369
Capital Projects	460,200	-	460,200
Debt Service	60	-	60
KETS Technology	141,510	-	141,510
Other Purposes	186,098	-	186,098
Unrestricted	681,213	270,872	952,085
Total Net Assets	<u>\$ 6,226,506</u>	<u>\$ 419,911</u>	<u>\$ 6,646,417</u>

The accompanying notes are an integral part of these financial statements.

**WEBSTER COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008**

FUNCTIONS/PROGRAMS	Program Revenues			Net (Expense) Revenues and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
Instruction	\$ (9,613,248)	\$ -	\$ 1,731,058	\$ -	\$ (7,882,190)	\$ -	\$ (7,882,190)
Support Services:							
Student	(949,389)	-	73,858	-	(875,531)	-	(875,531)
Instruction Staff	(1,557,085)	-	929,810	-	(627,275)	-	(627,275)
District Administrative	(473,920)	-	-	-	(473,920)	-	(473,920)
School Administrative	(968,730)	-	-	-	(968,730)	-	(968,730)
Business	(373,975)	-	-	-	(373,975)	-	(373,975)
Plant Operation and Maintenance	(2,173,875)	-	-	-	(2,173,875)	-	(2,173,875)
Student Transportation	(1,225,558)	-	106,492	-	(1,119,066)	-	(1,119,066)
Facilities Acquisition and Construction	-	-	16,466	901,287	917,753	-	917,753
Community Service Activities	(187,504)	-	131,460	-	(56,044)	-	(56,044)
Interest on Long-Term Debt	(391,821)	-	-	-	(391,821)	-	(391,821)
Depreciation	(888,765)	-	-	-	(888,765)	-	(888,765)
Total Governmental Activities	(18,803,870)	-	2,989,144	901,287	(14,913,439)	-	(14,913,439)
Business-Type Activities:							
Food Service	(1,479,924)	409,084	994,797	-	-	(76,043)	(76,043)
Total Business-Type Activities	(1,479,924)	409,084	994,797	-	-	(76,043)	(76,043)
Total Primary Government	\$ (20,283,794)	\$ 409,084	\$ 3,983,941	\$ 901,287	(14,913,439)	(76,043)	(14,989,482)
General Revenues:							
Taxes:							
			Property Taxes		2,566,377	-	2,566,377
			Motor Vehicle Taxes		433,520	-	433,520
			Unmined Mineral Taxes		82,448	-	82,448
			Utility Taxes		722,018	-	722,018
			Investment Earnings		110,159	6,496	116,655
			Other Local Revenue		17,119	-	17,119
			State and Formula Grants		11,151,865	-	11,151,865
			Gain (Loss) on Sale of Assets		223,648	-	223,648
			Transfers		44,534	(44,534)	-
			Change in Net Assets		438,249	(114,081)	324,168
			Net Assets - Beginning <Restated>		5,788,257	533,992	6,322,249
			Net Assets - Ending		\$ 6,226,506	\$ 419,911	\$ 6,646,417

The accompanying notes are an integral part of these financial statements.

**WEBSTER COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008**

	General Fund	Special Revenue Fund	Construction Fund	Non Major Governmental Funds	Total Governmental Funds
Assets					
Cash and Cash Equivalents	\$ 1,219,452	\$ -	\$ -	\$ -	\$ 1,219,452
Receivables:					
Taxes	125,432	-	-	-	125,432
Accounts Receivable	2,944	-	-	-	2,944
Intergovernmental - State	-	24,831	-	-	24,831
Intergovernmental - Federal	-	160,287	-	-	160,287
Restricted Cash	-	10,229	462,390	60	472,679
Total Assets	\$ 1,347,828	\$ 195,347	\$ 462,390	\$ 60	\$ 2,005,625
Liabilities and Fund Balances					
Liabilities					
Accounts Payable	\$ 59,148	\$ 14,618	\$ -	\$ -	\$ 73,766
Current Portion of Accrued Sick Leave	50,000	-	-	-	50,000
Deferred Revenue	-	39,219	-	-	39,219
Payable from Restricted Assets	-	-	2,190	-	2,190
Total Liabilities	109,148	53,837	2,190	-	165,175
Fund Balances					
Reserved for:					
Encumbrances	44,369	-	-	-	44,369
Sick Leave	130,000	-	-	-	130,000
SBDM Council	56,098	-	-	-	56,098
Technology	-	141,510	-	-	141,510
Debt Service	-	-	-	60	60
Capital Projects Fund	-	-	460,200	-	460,200
Unreserved and Undesignated, Reported In:					
General Fund	1,008,213	-	-	-	1,008,213
Total Fund Balances	1,238,680	141,510	460,200	60	1,840,450
Total Liabilities and Fund Balances	\$ 1,347,828	\$ 195,347	\$ 462,390	\$ 60	\$ 2,005,625

The accompanying notes are an integral part of these financial statements.

**WEBSTER COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO
THE STATEMENT OF NET ASSETS
JUNE 30, 2008**

Total Fund Balance Per Fund Financial Statements	\$ 1,840,450
Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:	
Capital Assets Are Not Reported in This Fund Financial Statement Because They are Not Current Financial Resources, but They Are Reported in the Statement of Net Assets	14,161,367
Certain Liabilities are Not Reported in This Fund Financial Statement Because They Are Not Due and Payable, but They Are Presented in the Statement of Net Assets. Long-Term Liabilities at Year End Consists of:	
Bond Obligations	(8,474,200)
Noncurrent Portion of Accrued Sick Leave	(327,000)
Capital Lease Obligations	(974,111)
Net Assets for Governmental Activities	<u>\$ 6,226,506</u>

The accompanying notes are an integral part of these financial statements.

WEBSTER COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	General Fund	Special Revenue Fund	Construction Fund	Non Major Governmental Funds	Total Governmental Funds
Revenues					
From Local Sources:					
Taxes:					
Property	\$ 2,269,301	\$ -	\$ -	\$ 297,076	\$ 2,566,377
Motor Vehicle	433,520	-	-	-	433,520
Unmined Mineral	82,448	-	-	-	82,448
Utility	722,018	-	-	-	722,018
Earnings on Investments	74,036	6,737	21,704	7,682	110,159
Other Local Revenues	17,119	-	-	-	17,119
Intergovernmental - Local	-	300	-	-	300
Intergovernmental - State	11,151,865	1,391,840	-	901,287	13,444,992
Intergovernmental - Indirect Federal	29,542	1,567,462	-	-	1,597,004
Total Revenues	14,779,849	2,966,339	21,704	1,206,045	18,973,937
Expenditures					
Current:					
Instruction	8,272,264	1,640,140	-	-	9,912,404
Support Services:					
Student	812,666	136,723	-	-	949,389
Instruction Staff	692,926	864,159	-	-	1,557,085
District Administrative	473,920	-	-	-	473,920
School Administrative	968,730	-	-	-	968,730
Business	373,475	-	-	-	373,475
Plant Operation and Maintenance	2,157,409	16,466	-	-	2,173,875
Student Transportation	1,119,063	106,495	-	-	1,225,558
Community Service Activities	3,597	183,907	-	-	187,504
Capital Outlay:					
Facilities Acquisition and Construction	-	-	296,526	1,950	298,476
Debt Service:					
Principal	-	-	-	860,540	860,540
Interest	-	-	-	391,821	391,821
Total Expenditures	14,874,050	2,947,890	296,526	1,254,311	19,372,777
Excess (Deficiency) of Revenues Over (Under) Expenditures	(94,201)	18,449	(274,822)	(48,266)	(398,840)
Other Financing Sources (Uses)					
Proceeds From Sale of Fixed Assets	15,560	-	208,088	-	223,648
Transfers In	396,359	5,570	205,263	883,340	1,490,532
Transfers Out	(209,239)	(13,655)	(351,824)	(871,280)	(1,445,998)
Total Other Financing Sources (Uses)	202,680	(8,085)	61,527	12,060	268,182
Net Change in Fund Balance	108,479	10,364	(213,295)	(36,206)	(130,658)
Fund Balance, July 1, 2007 <Restated>	1,130,201	131,146	673,495	36,266	1,971,108
Fund Balance, June 30, 2008	\$ 1,238,680	\$ 141,510	\$ 460,200	\$ 60	\$ 1,840,450

The accompanying notes are an integral part of these financial statements.

WEBSTER COUNTY SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

Net change in total fund balances per fund financial statements	\$ (130,658)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in this fund financial statement because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives. The difference is the amount by which depreciation expense exceeds capital outlays for the year.	(291,633)
Bond and capital lease payments are recognized as expenditures of current financial resources in the fund financial statements, but are reductions of liabilities in the statement of net assets.	860,540
Change in net assets of governmental activities	<u>\$ 438,249</u>

The accompanying notes are an integral part of these financial statements.

**WEBSTER COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2008**

	Food Service Fund
Assets	
Current Assets	
Cash and Cash Equivalents	\$ 69,470
Inventory	50,962
Accounts Receivable	
Intergovernmental - Indirect Federal	<u>169,427</u>
Total Current Assets	<u>289,859</u>
Noncurrent Assets	
Capital Assets	803,659
Less: Accumulated Depreciation	<u>(654,620)</u>
Total Noncurrent Assets	<u>149,039</u>
Total Assets	<u>438,898</u>
Liabilities	
Current Liabilities	
Accounts Payable	4,487
Accrued Sick Leave	<u>1,500</u>
Total Current Liabilities	<u>5,987</u>
Noncurrent Liabilities	
Accrued Sick Leave	<u>13,000</u>
Total Noncurrent Liabilities	<u>13,000</u>
Total Liabilities	<u>18,987</u>
Net Assets	
Invested in Capital Assets	149,039
Unrestricted	<u>270,872</u>
Total Net Assets	<u><u>\$ 419,911</u></u>

The accompanying notes are an integral part of these financial statements.

**WEBSTER COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2008**

	Food Service Fund
Operating Revenues:	
Lunchroom Sales	\$ 394,252
Special Functions	14,494
Other Operating Revenues	<u>338</u>
Total Operating Revenues	<u>409,084</u>
Operating Expenses:	
Salaries and Wages	467,846
Employee Benefits	307,761
Contract Services	30,888
Materials and Supplies	605,440
Depreciation	29,178
Other Operating Expenses	<u>38,811</u>
Total Operating Expenses	<u>1,479,924</u>
Operating Loss	<u>(1,070,840)</u>
Nonoperating Revenues (Expenses):	
Federal Grants	736,434
Donated Commodities	64,777
State Grants	193,586
Interest Income	6,496
Transfers to General Fund	<u>(44,534)</u>
Total Nonoperating Revenues (Expenses)	<u>956,759</u>
Income (Loss)	(114,081)
Net Assets, July 1, 2007 <Restated>	<u>533,992</u>
Net Assets, June 30, 2008	<u><u>\$ 419,911</u></u>

The accompanying notes are an integral part of these financial statements.

**WEBSTER COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2008**

Cash Flows from Operating Activities

Cash Received from:	
Lunchroom Sales	\$ 394,252
Government Grants	715,994
Other Activities	14,832
Cash Paid To/For:	
Employees	(593,757)
Supplies	(579,078)
Other Activities	(38,811)
Net Cash Provided (Used) by Operating Activities	<u>(86,568)</u>

Cash Flows from Non Capital Financing Activities

Transfers to General Fund	<u>(44,534)</u>
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Cash Flows from Capital and Related Financing Activities

Purchases of Capital Assets	<u>(18,230)</u>
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Cash Flows from Investing Activities

Receipt of Interest Income	<u>6,496</u>
----------------------------	--------------

Net Increase (Decrease) in Cash and Cash Equivalents	(142,836)
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Balances, Beginning of Year <Restated>	<u>212,306</u>
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Balances, End of Year	<u><u>\$ 69,470</u></u>
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Reconciliation of Operating Income (Loss) to Net Cash Provided
(Used) by Operating Activities

Operating Loss	\$ (1,070,840)
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Adjustments to Reconcile Operating Income to Net Cash Provided
(Used) by Operating Activities

Depreciation	21,978
Commodities Received	64,777
Government Grants	930,020
Change in Assets and Liabilities	
Receivables	(28,906)
Inventory	(2,433)
Accounts Payable	1,278
Other Current Liabilities	(2,442)

Net Cash Provided (Used) by Operating Activities	<u><u>\$ (86,568)</u></u>
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Schedule of Non-Cash Transactions:

Donated Commodities Received from Federal Government	\$ 64,777
Benefits Paid by State of Kentucky on Behalf of District	<u>180,650</u>

Total Non-Cash Transactions	<u><u>\$ 245,427</u></u>
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The accompanying notes are an integral part of these financial statements.

**WEBSTER COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2008**

	Fiscal Agent Funds	Agency Funds	Total Fiduciary Net Assets
Assets			
Cash and Cash Equivalent	\$ 1,738	\$ 268,147	\$ 269,885
Accounts Receivable	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>1,738</u>	<u>268,147</u>	<u>269,885</u>
Liabilities			
Accounts Payable	-	12,816	12,816
Due to Student Groups	<u>-</u>	<u>255,331</u>	<u>255,331</u>
Total liabilities	<u>-</u>	<u>268,147</u>	<u>268,147</u>
Net Assets Held in Trust	<u><u>\$ 1,738</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,738</u></u>

The accompanying notes are an integral part of these financial statements.

**WEBSTER COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Fiscal Agency Fund</u>
Additions	
State Aid	<u>\$ 46,700</u>
Total additions	<u>46,700</u>
Deductions	
Salaries and benefits	39,218
Purchased services	<u>5,744</u>
Total deductions	<u>44,962</u>
Changes in net assets	1,738
Net assets, beginning of year	<u>-</u>
Net assets, end of year	<u><u>\$ 1,738</u></u>

The accompanying notes are an integral part of these financial statements.

**WEBSTER COUNTY SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

1. Reporting Entity

The Webster County Board of Education (Board), a five member group, is a level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Webster County School District (District). The Board receives funding from Local, State and Federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental reporting entity, as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and account groups relevant to the operation of the Webster County Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

These financial statements present the District and its component units, entities for which the District entity is considered to be financially accountable. Blended component units, although legally separate entities, are in substance, part of the governmental entity's operations and so data from these units would be combined with data of the primary governmental entity. The Webster County School District has one blended component unit.

Blended Component Unit:

Webster County School District Finance Corporation - The Webster County, Kentucky, Board of Education has established the Webster County School District Finance Corporation (a nonprofit, nonstock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) as an agency of the Board for financing the costs of school building facilities. The Board Members of the Webster County Board of Education also comprise the Corporation's Board of Directors.

2. Summary of Significant Accounting Policies

(a) Basis of Presentation

Government-wide Financial Statements – The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities. The effect of interfund activity has been substantially removed from these statements.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include reconciliation, with brief explanations, to better identify the relationship between the government-wide statements and the statements for governmental funds.

2. Summary of Significant Accounting Policies, Continued

(a) Basis of Presentation, Continued

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements – Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for by using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in the fund balance.

The proprietary fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in retained earnings. Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the District, those revenues are primarily charges for meals provided by the various schools. All revenues not meeting this definition are reported as nonoperating revenues. The District applies all applicable FASB pronouncements in accounting and reporting for its proprietary operations.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

The District had the following funds:

Governmental Fund Types

- 1) The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any fund balances are considered as resources available for use. This is a major fund of the District.

2. Summary of Significant Accounting Policies, Continued

(a) Basis of Presentation, Continued

- 2) The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report on pages 42 through 43. This is a major fund of the District.
- 3) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by a proprietary fund).
 - (a) The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as capital outlay funds and is restricted for use in financing projects identified in the District's facility plan.
 - (b) The Facility Support Program of Kentucky (FSPK) Fund accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
 - (c) The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.
- 4) The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs; and for the payment of interest on general obligation notes payable, as required by Kentucky Law.

Proprietary Fund Type

Enterprise Funds are used to account for those operations that are financed and operated in a manner similar to private business or where the Board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

The School Food Service Fund (the District's only enterprise fund) is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The School Food Service Fund is a major fund.

2. Summary of Significant Accounting Policies, Continued

(a) Basis of Presentation, Continued

Fiduciary Fund Types

Fiduciary Funds account for assets held by the District in a trustee capacity (trust funds) or as an agent on behalf of others (agency funds). The District has no trust funds.

The Agency Fund is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the government holds for others in an agency capacity. The Agency Fund consists of activity funds and accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with *Uniform Program of Accounting for School Activity Funds*.

(b) Basis of Accounting

The government-wide financial statements, as well as the proprietary fund and fiduciary fund financial statements, are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements are reported using the modified accrual basis of accounting, whereby revenues are recognized when they become both measurable and available. Revenues are considered to be "available" when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Expenditures are generally recognized when the related liability is incurred.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include; (1) timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, (2) matching requirements, in which the District must provide local resources to be used for a specified purpose, and (3) expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenues from non-exchange transactions must also be available before they can be recognized.

(c) Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the governmental fund financial statements. Capital assets utilized by

2. Summary of Significant Accounting Policies, Continued

(c) Capital Assets, Continued

the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold, as stated below, with the exception of computers and real property for which there is no threshold. The District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the useful lives, listed below, for both general capital assets and proprietary fund assets.

Description	Capitalization Thresholds	Estimated Lives For Depreciation
Buildings and Improvements	\$ 25,000	25-50 Years
Land Improvements	\$ 25,000	20-25 Years
Technology Equipment	\$ 1,000	5 Years
Vehicles	\$ 5,000	5-10 Years
Food Service Equipment	\$ 1,000	12 Years
Furniture and Fixtures	\$ 1,000	7-20 Years
Other	\$ 1,000	10-15 Years

(d) Cash and Cash Equivalents/Restricted Cash/Investments

The Board considers demand deposits, money market funds, and other investments with an original maturity of 90 days or less, to be cash equivalents. Cash is restricted in the special revenue funds per grant and other agreements, in the capital projects funds per state requirements and in debt service funds per debt agreements. (See Note 7 & 8)

Cash balances of the District's funds are pooled and invested. Interest earned from investments purchased with pooled cash is allocated to the various funds based on the fund's average cash balance. Funds with negative cash balances are not charged interest.

As security for deposits of the District, any bank doing such business is required to pledge securities in an amount to exceed funds on deposit by the District. In addition, the District's accounts are insured, subject to FDIC coverage terms and limitations. (See Note 4)

2. Summary of Significant Accounting Policies, Continued

(d) Cash and Cash Equivalents/Restricted Cash/Investments, Continued

State statutes authorize the District to invest in obligations of the U.S. Treasury and U.S. Agencies, certain federal instruments, commercial bank's certificates of deposit, savings and loan deposits, repurchase agreements, and the Commonwealth of Kentucky Investment Pool.

The District's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments, which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes.

(e) Inventories/Commodities

Supplies and materials are charged to expenditures when purchased with the exception of the proprietary funds, which records inventory using the accrual basis of accounting. Inventories are valued at cost or at their estimated fair value at the date of donation, using the first-in, first-out method.

For the purposes of the statement of cash flows, federal grants received does not include noncash commodities received in the amount of \$64,777.

(f) Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements. Bond discounts, premiums and issuance costs are recorded as other assets in the government-wide financial statements and are amortized on a straight line basis over the life of the bonds.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

2. Summary of Significant Accounting Policies, Continued

(g) Net Assets and Fund Balance

District-Wide Financial Statements

When the District incurs an expense for which it may use either restricted or unrestricted net assets, it uses restricted net assets first unless unrestricted net assets will have to be returned because they were not used. Net assets on the Statement of Net Assets include the following:

Investment in Capital Assets, Net of Related Debt – The component of net assets that reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt, excluding unspent proceeds, that is directly attributable to the acquisition, construction or improvement of these capital assets.

Restricted for Capital Projects – The component of net assets that reports the financial resources restricted to pay for construction activities.

Restricted for KETS Program – The component of net assets that reports the amount of required matching transfers from the general fund in excess of expenditures. These funds are restricted for use of the KETS program.

Restricted for Debt Service – The component of net assets that reports the financial resources restricted to pay debt service on capital related debt less current accrual of interest.

Unrestricted – The difference between the assets and liabilities that is not reported in Net Assets Invested in Capital Assets, Net of Related Debt, Net Assets Restricted for KETS Program, or Net Assets Restricted for Debt Service.

Governmental Fund Financial Statements

In the fund financial statements, governmental funds report fund balances as either a reserved fund balance or an unreserved fund balance.

Reserved Fund Balance – That portion of fund balance which is not available for appropriation or which has been legally segregated for a specific purpose.

Unreserved Fund Balance – Composed of designated and undesignated portions. The undesignated portion of the unreserved fund balance represents that portion of fund balance that is available for budgeting in future periods. Designated fund balances represent tentative plans for future use of financial resources.

(h) Deferred Revenue

Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

(i) Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in

2. Summary of Significant Accounting Policies, Continued

(i) Interfund Activity, Continued

proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due-to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

(j) Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

(k) Accrued Sick Leave

The Webster County School District allows employees to accumulate and carry over sick days from year to year. The amount of total days that may be carried over from year to year is unlimited. Upon retirement from the school system, employees will receive an amount up to thirty percent (30%) of the value of accumulated sick leave. Sick leave benefits are accrued as a liability using the vesting method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. It is deemed probable that benefits will be paid to certified employees with twenty or more years of experience and classified employees with ten or more years of experience.

The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "accrued sick leave" in the general fund. The noncurrent portion of the liability is not reported.

3. Property Taxes

Property taxes collected are recorded as revenues in the Fund for which they were levied. Each year, property taxes are levied on October 1, based on assessments as of January 1 prepared by the Webster County property valuation administrator. The taxes are payable on November 1. The tax rates placed in effect are 46.9 cents per \$100 of assessed valuation on real estate and 46.9 cents per \$100 on personal property, of which 6.0 cents is for participation in the Facility Support Program, and 48.0 cents per \$100 of assessed valuation on motor vehicles.

4. Cash and Cash Equivalents

At June 30, 2008, the carrying amount of the District's cash and cash equivalents was \$2,031,486 and the bank balance was \$2,199,056. Of the bank balances, \$263,037 was insured by federal depository insurance, \$4,807,898 was covered by collateral held by the pledging bank's agent.

The District's cash and cash equivalents at June 30, 2008:

	<u>Bank Balance</u>	<u>Book Balance</u>
Independence Bank	\$ 1,921,374	\$ 1,758,479
Integra Bank	19,525	19,525
Sebree Deposit Bank	17,664	17,090
Dixon Bank	214,645	210,544
JP Morgan	60	60
Gov. Liquidity Fund	25,788	25,788
	<u>\$ 2,199,056</u>	2,031,486
Restricted Cash		<u>472,679</u>
Unrestricted Cash and Cash Equivalents		<u>\$ 1,558,807</u>
Reported in the Financial Statement:		
Governmental Funds		\$ 1,219,452
Proprietary Funds		69,470
Fiduciary Funds		<u>269,885</u>
		<u>\$ 1,558,807</u>

5. Restricted Cash

Restricted Cash at June 30, 2008 consists of the following:

<u>Special Revenue</u>	\$ 10,229
<u>Capital Projects Fund</u>	
Construction Fund	462,390
<u>Debt Service Fund</u>	<u>60</u>
Total Restricted Cash	<u>\$ 472,679</u>

6. Capital Assets

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008
Governmental Activities:				
Not depreciated:				
Land	\$ 554,365	\$ -	\$ -	\$ 554,365
Construction in progress	893,479	296,526	-	1,190,005
	<u>1,447,844</u>	<u>296,526</u>	<u>-</u>	<u>1,744,370</u>
Depreciated:				
Land Improvements	648,134	-	-	648,134
Buildings and improvements	19,495,184	-	-	19,495,184
Technology equipment	1,980,708	278,143	(321,235)	1,937,616
Vehicles	2,946,589	22,463	(287,061)	2,681,991
General	537,971	-	-	535,752
	<u>25,608,586</u>	<u>300,606</u>	<u>(610,515)</u>	<u>25,298,677</u>
Totals at historical cost	<u>27,056,430</u>	<u>597,132</u>	<u>338,512</u>	<u>27,043,047</u>
Less: accumulated depreciation				
Land	(321,697)	(26,931)	-	(348,628)
Buildings and improvements	(8,656,181)	(437,779)	-	(9,093,960)
Technology equipment	(1,229,371)	(215,095)	201,679	(1,242,787)
Vehicles	(193,070)	(168,888)	287,061	(1,811,897)
General	(345,779)	(40,072)	1,443	(384,408)
	<u>(12,483,098)</u>	<u>(888,765)</u>	<u>490,183</u>	<u>(12,881,680)</u>
Total accumulated depreciation	<u>(12,483,098)</u>	<u>(888,765)</u>	<u>490,183</u>	<u>(12,881,680)</u>
Governmental Activities				
Capital Assets - Net	<u>\$ 14,573,332</u>	<u>\$ (291,633)</u>	<u>\$ (120,332)</u>	<u>\$ 14,161,367</u>
Business-Type Activities:				
Depreciated:				
Food service equipment	\$ 718,452	\$ 13,178	\$ -	\$ 731,630
Technology equipment	66,353	5,052	(17,125)	54,280
Vehicle	17,749	-	-	17,749
Total at historical cost	<u>802,554</u>	<u>18,230</u>	<u>(17,125)</u>	<u>803,659</u>
Less: accumulated depreciation				
Food service equipment	(570,897)	(23,090)	-	(593,987)
Technology equipment	(51,890)	(2,538)	9,769	(44,659)
Vehicle	(12,424)	(3,550)	-	(15,974)
Total accumulated depreciation	<u>(635,211)</u>	<u>(29,178)</u>	<u>9,769</u>	<u>(654,620)</u>
Business-Type Activities				
Capital Assets - Net	<u>\$ 167,343</u>	<u>\$ (10,948)</u>	<u>\$ (7,356)</u>	<u>\$ 149,039</u>

7. Long-Term Debt

The original amount of each issue, the issue date and interest rate are summarized below:

Issue Date	Issue Name	Original Amount	Interest Rate	Maturity Date
2001	Renovations - Dixon Elementary	\$ 1,550,000	4.60%	2021
2001	91 Refunding	1,070,000	4.00-4.25%	2012
2004	94 Refunding	2,880,000	1.90-3.625%	2016
2005	HVAC - Clay Elementary	2,085,000	3.90%	2026
2006	Renovations - Slaughters Elementary	900,000	3.90%	2027
(A)KISTA - 1999	HVAC - Providence Elementary	131,000	4.00-5.35%	2012
(A)KISTA - 1998	Renovations - Providence Elementary	400,000	4.60-5.15%	2018
(A)KISTA - 1998	Renovations - Providence Elementary	131,000	4.15-5.10%	2018
(A) - 1998	91 Refunding	1,050,000	3.50-4.00%	2011
(A)KISTA - 1999	Cafeteria - Providence Elementary	378,000	3.85-4.95%	2019
(A)KISTA - 2003	Renovations - Providence Elementary	280,000	1.50-4.70%	2023
(A) - 2004	95 Refunding	410,000	1.30-3.50%	2015
(A) - 2004	Renovations - Restrooms Povidence Elementary	300,000	4.625%	2024

(A) These bonds and KISTA loans were assumed by the Webster County School District through the merger agreement dated December 12, 2006

The district, through the General Fund (including utility taxes and the Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund) is obligated to make payments in the amount sufficient to satisfy debt service requirements on bonds issued by the Webster County School District Finance Corporation to construct school facilities. The District has an option to purchase the property under lease at any time by retiring the bonds then outstanding

In connection with the school revenue bonds and KISTA Series, the District entered into "participation agreements" with the school facility construction commission. The commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the District and the commission for each year until maturity of all bond issues and KISTA Series. The liability for the total amount remains with the district and as such, the total principal outstanding has been recorded in the financial statements.

7. Long-Term Debt, Continued

The bonds and series may be called prior to maturity and redemption premiums are specified in each issue. Assuming no issues are called prior to scheduled maturity, the minimum requirements of the District including amounts to be paid by the commission at June 30, 2008, for debt service (principal and interest) are as follows:

Year	Webster County Board of Education		School Facilities Construction Commission		Total Requirements		Bonds Outstanding
	Interest	Bonds	Interest	Bonds	Interest	Bonds	
							\$ 8,474,200
2008-2009	\$ 224,322	\$ 461,029	\$ 103,750	\$ 252,596	\$ 328,072	\$ 713,625	7,760,575
2009-2010	208,425	475,338	94,423	262,987	302,848	738,325	7,022,250
2010-2011	192,061	484,972	84,618	282,453	276,679	767,425	6,254,825
2011-2012	175,968	453,413	71,187	246,337	247,155	699,750	5,555,075
2012-2013	159,203	464,327	62,631	149,148	221,834	613,475	4,941,600
2013-2014	141,987	475,302	55,941	155,123	197,928	630,425	4,311,175
2014-2015	124,239	498,472	48,999	148,278	173,238	646,750	3,664,425
2015-2016	105,571	479,966	42,165	143,484	147,736	623,450	3,040,975
2016-2017	86,016	221,178	35,385	148,847	121,401	370,025	2,670,950
2017-2018	76,696	232,210	28,295	154,740	104,991	386,950	2,284,000
2018-2019	67,704	211,232	21,389	137,768	89,093	349,000	1,935,000
2019-2020	59,150	217,839	15,647	117,161	74,797	335,000	1,600,000
2020-2021	50,328	224,289	10,232	120,711	60,560	345,000	1,255,000
2021-2022	41,145	200,000	4,655	40,000	45,800	240,000	1,015,000
2022-2023	33,150	210,000	2,790	40,000	35,940	250,000	765,000
2023-2024	24,863	215,000	925	20,000	25,788	235,000	530,000
2024-2025	16,380	220,000	-	-	16,380	220,000	310,000
2025-2026	7,703	225,000	-	-	7,703	225,000	85,000
2026-2027	1,658	85,000	-	-	1,658	85,000	-
Total	\$ 1,796,569	\$ 6,054,567	\$ 683,032	\$ 2,419,633	\$ 2,479,601	\$ 8,474,200	

During the year ended June 30, 2008, the following changes occurred in long term debt:

	Balance July 1, 2007	Additions	Deductions	Balance June 30, 2008	Due Within One Year
Governmental Activities:					
Revenue Bonds:					
Issue of 2001	1,215,000	-	65,000	1,150,000	65,000
Issue of 2001 <Refunding>	530,000	-	105,000	425,000	105,000
Issue of 2001 <Refunding>	2,560,000	-	235,000	2,325,000	250,000
Issue of 2005	2,010,000	-	80,000	1,930,000	80,000
Issue of 2006	9,000,000	-	10,000	890,000	10,000
KISTA - 1997	56,000	-	10,000	46,000	11,000
KISTA - 1998	316,000	-	11,000	305,000	14,000
KISTA - 1998	85,725	-	6,525	79,200	6,625
Issue of 1998 <Refunding>	405,000	-	95,000	310,000	100,000
KISTA - 1999	265,000	-	16,000	249,000	17,000
KISTA - 2003	240,000	-	10,000	230,000	10,000
Issue of 2004 <Refunding>	310,000	-	35,000	275,000	35,000
Issue of 2004	270,000	-	10,000	260,000	10,000
	<u>9,162,725</u>	<u>-</u>	<u>688,525</u>	<u>8,474,200</u>	<u>713,625</u>
Accrued Sick Leave	<u>377,000</u>	<u>-</u>	<u>-</u>	<u>377,000</u>	<u>50,000</u>
	<u>9,539,725</u>	<u>-</u>	<u>688,525</u>	<u>8,851,200</u>	<u>763,625</u>
Business-Type Activities:					
Accrued Sick Leave	<u>13,300</u>	<u>-</u>	<u>-</u>	<u>14,500</u>	<u>1,500</u>

8. Capital Lease Obligations

The District has entered into lease agreements with KISTA for financing the acquisitions of school buses and with Central Kentucky Educational Cooperative for financing the acquisitions of technology equipment. The following is an analysis of leased property under capital lease by class:

<u>Class of Property</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>
Vehicles	\$ 1,337,930	\$ 462,275
Technology Equipment	\$ 192,289	\$ -

The following is a schedule, by years, of the future minimum lease payments under the capital leases together with the present value of the net minimum lease payments as of June 30, 2008.

<u>Year Ending</u>	<u>KISTA Leases</u>	<u>CKEC Leases</u>	<u>Total Payments</u>
2009	\$ 170,124	\$ 38,457	\$ 208,581
2010	141,134	38,457	179,591
2011	126,354	38,457	164,811
2012	114,494	19,232	133,726
2013	106,219	-	106,219
2014-2017	314,508	-	314,508
Total Minimum Lease Payments	972,833	134,603	1,107,436
Lease Amount Representing Interest	(133,325)	-	(133,325)
Present Value of Net Minimum Lease Payments	<u>\$ 839,508</u>	<u>\$ 134,603</u>	<u>\$ 974,111</u>

Participation Agreement CKEC 2006 Lease:

The Commonwealth of Kentucky has guaranteed Coal Severance funds will be available to provide assistance in paying lease obligations for a two year period. Receipts from the State are recorded as intergovernmental – state revenue in the debt service fund.

During the year ended June 30, 2008, the following changes occurred in the capital lease obligations:

	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance June 30, 2008</u>	<u>Due in One Year</u>
KISTA 98	\$ 33,986	\$ -	\$ 16,735	\$ 17,251	\$ 17,251
KISTA 00	38,803	-	13,896	24,907	12,150
KISTA 00	47,862	-	12,287	35,575	12,787
KISTA 01	30,044	-	5,943	24,101	6,177
KISTA 04	88,225	-	12,255	75,970	12,581
KISTA 05	143,584	-	16,884	126,700	17,410
KISTA 06	276,537	-	24,425	252,112	29,276
KISTA 07	314,024	-	31,132	282,892	31,808
CKEC - P 06	107,111	-	23,802	83,309	23,802
CKEC - D 06	65,949	-	14,655	51,294	14,655
	<u>\$ 1,146,125</u>	<u>\$ -</u>	<u>\$ 172,014</u>	<u>\$ 974,111</u>	<u>\$ 177,897</u>

9. Retirement Plans

KTRS

The Webster County School District contributes to the Teachers' Retirement System of Kentucky (KTRS), a cost-sharing, multiple-employer defined benefit pension plan. KTRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky. KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report can be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601.

Contribution rates are established by KRS. Members are required to contribute 9.855% of their salaries to KTRS. The Commonwealth of Kentucky is required to contribute 13.105% of salaries. The matching contributions are paid by the federal programs for any salaries paid by that program. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by KY Department of Education (KDE). The Webster County School District's total payroll for the year was \$10,851,051. The payroll for employees covered under KTRS was \$7,435,184. For the year ended June 30, 2008, the Commonwealth contributed \$1,157,815 to KTRS for the benefit of our participating employees. The District's contributions to KTRS for the years ending June 30, 2008, 2007 and 2006 were \$54,693, \$31,309, and \$30,286, respectively, which represent 100% of the required contributions for those employees covered by federal programs.

CERS

Substantially, all other employees (classified personnel) are covered under the County Employees Retirement System (CERS), a cost-sharing, multiple-employer defined benefit plan administered by the Board of Trustees of Kentucky Retirement Systems (KRS). CERS provides retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of plan members under certain circumstances. Cost-of-living adjustments (COLA) are provided at the discretion of the State legislature. Section 61.645 of the Kentucky Revised Statutes assigns the authority to establish and amend benefit provisions to the KRS Board of Trustees. The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for CERS. That report may be obtained by writing to Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601 or by calling 1-502-564-4646.

Plan members are required to contribute 5% of their annual creditable compensation and the District is required to contribute at an actuarially determined rate. The current rate is 16.17% of annual covered payroll. The contribution requirements of plan members and the District are established and may be amended by KRS Board of Trustees. The District's contributions to CERS for the years ended June 30, 2008, 2007 and 2006 were \$465,668, \$313,172, and \$249,396, respectively, equal to the required contributions for each year.

Other

The District also offers employees the option to participate in defined contribution plans under Sections 401(k) and 457 of the Internal Revenue Code. All regular full-time and

9. Retirement Plans, Continued

part-time employees are eligible to participate and may contribute up to the maximum amount allowable by law. The District does not contribute to these plans.

10. Contingencies

The District receives funding from federal, state and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if based upon the grantor's review, the funds are considered not to have been used for the intended purpose, the grantors may request a refund of monies advanced, or to refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantor's satisfaction that the funds provided are being spent as intended and the grantor's intent to continue its programs.

As shown in Note 8 above, the Kentucky School Facilities Construction Commission (KSFCC) is assisting the District with the repayment of the Bond Series. In the unlikely event the KSFCC defaults on their portion of the bond series, the District is responsible to repay the amount in full. KSFCC's portion as of June 30, 2008, was \$2,419,633.

11. Litigation

The District is involved in a litigation the outcome of which is not determinable at this time. Administration officials and legal counsel do not anticipate that there will be any material effect on the financial statements as a result of this case presently in progress.

12. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, the District bought a commercial insurance policy. The District pays an annual premium for coverage. Contributions to the Workers' Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

13. COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the school district at risk for a substantial loss (contingency).

14. Transfer of Funds

The following transfers were made during the year:

From Fund	To Fund	Amount
General	Special Revenue	\$ 5,570
Capital Projects (SEEK)	Debt Service	\$ 200,149
Capital Projects (FSPK)	Debt Service	\$ 465,867
Food Service	General	\$ 44,534
General	Debt Service	\$ 17,508
Construction	General	\$ 351,824
Capital Projects (FSPK)	Construction	\$ 205,263

15. Commitments

The District has the following outstanding construction projects, as evidenced by BG-1 forms, as of June 30, 2008.

Projects	Total Commitment	Incurred To Date	Commitment Remaining
Slaughters Lift	\$ 885,997	\$ 813,381	\$ 72,616
Eric Hogg Fieldhouse	\$ 113,654	\$ 53,206	\$ 60,448
WCHS Renovation	\$ 326,233	\$ 262,935	\$ 63,298
WCHS Gym	\$ 10,190,677	\$ 553,162	\$ 9,637,515
WCHS Soccer	\$ 115,431	\$ 29,761	\$ 85,670

16. On-Behalf Payments

The Commonwealth of Kentucky made payments on-behalf of the District as follows for the year ended June 30, 2008. The amounts are included in the General Fund and Food Service Fund as Intergovernmental-State revenues. In the General Fund, the retirement payments and the state operated vocational education payments are recorded as additional instruction expense and the health insurance, life insurance and flexible spending (net of fees) payments are allocated to the various expense functions based on a ratio of employees. In the Food Services Fund, all of the payments are recorded as additional employee benefits.

Kentucky Teachers Retirement System	\$ 1,157,815
Health Insurance, Life Insurance, Flexible Spending Plan	
Net of Administrative Fees	1,908,173
State Operated Vocational Ed Schools	155,213
IDU Technology	116,495
	<u>\$ 3,337,696</u>

17. Deficit Operating Fund Balances

The following funds have operations that resulted in a current year deficit of revenues under expenditures resulting in a corresponding reduction of fund balance. These deficits were funded by available resources at the beginning of the year.

Capital Projects (FSPK)	\$ 36,206
Construction	\$ 213,295
Food Service	\$ 84,904

18. Beginning Net Assets Restated

The net assets as previously reported have been restated due to the merger of the Providence Independent School District with the Webster County School District. The beginning balances of capital assets and bonds payable were increased.

	Governmental Activities	Business-Type Activities
Net Assets, June 30, 2007	\$ 5,431,447	\$ 486,609
Capital Assets, Net	2,304,535	47,383
Bonds Payable	(1,947,725)	-
Net Assets, Restated	<u>\$ 5,788,257</u>	<u>\$ 533,992</u>

WEBSTER COUNTY SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2008

	Budgeted Amounts			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
Revenues				
From Local Sources				
Taxes				
Property	\$ 2,264,048	\$ 2,264,048	\$ 2,269,301	\$ 5,253
Motor Vehicle	391,591	391,591	433,520	41,929
Unmined Mineral	82,438	82,438	82,448	10
Utility	616,417	616,417	722,018	105,601
Earnings on Investments	66,336	66,336	74,036	7,700
Other Local Revenues	16,020	16,020	17,119	1,099
Intergovernmental - State	9,452,094	9,452,094	11,151,865	1,699,771
Intergovernmental - Indirect Federal	29,935	29,935	29,542	(393)
Total Revenues	12,918,879	12,918,879	14,779,849	1,860,970
Expenditures				
Current:				
Instruction	7,469,321	7,469,321	8,272,264	(802,943)
Support Services:				
Student	808,257	808,257	812,666	(4,409)
Instruction Staff	761,992	761,992	692,926	69,066
District Administrative	502,342	502,342	473,920	28,422
School Administrative	863,394	863,394	968,730	(105,336)
Business	385,604	385,604	373,475	12,129
Plant Operation and Maintenance	1,969,711	1,969,711	2,157,409	(187,698)
Student Transportation	925,450	925,450	1,119,063	(193,613)
Contingency	407,105	407,105	-	407,105
Community Service Activities	3,597	3,597	3,597	-
Total Expenditures	14,096,773	14,096,773	14,874,050	(777,277)
Excess (Deficit) of Revenues Over Expenditures	(1,177,894)	(1,177,894)	(94,201)	1,083,693
Other Financing Sources (Uses)				
Proceeds from Sale of Fixed Assets	365,007	365,007	15,560	(349,447)
Operating Transfers In	44,534	44,534	396,359	351,825
Operating Transfers Out	(209,359)	(209,359)	(209,239)	120
Total Other Financing Sources (Uses)	200,182	200,182	202,680	2,498
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	(977,712)	(977,712)	108,479	1,086,191
Fund Balance, July 1, 2007 <Restated>	977,712	977,712	1,130,201	152,489
Fund Balance, June 30, 2008	\$ -	\$ -	\$ 1,238,680	\$ 1,238,680

WEBSTER COUNTY SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - SPECIAL REVENUE FUND
FOR THE YEAR ENDED JUNE 30, 2008

	Budgeted Amounts			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
Revenues				
From Local Sources				
Taxes				
Property	\$ -	\$ -	\$ -	\$ -
Motor Vehicle	-	-	-	-
Unmined Mineral	-	-	-	-
Utility	-	-	-	-
Earnings on Investments	-	-	6,737	6,737
Other Local Revenues	-	-	-	-
Intergovernmental - Local	-	-	300	300
Intergovernmental - State	736,337	736,337	1,391,840	655,503
Intergovernmental - Indirect Federal	122,082	122,082	1,567,462	1,445,380
Total Revenues	858,419	858,419	2,966,339	2,107,920
Expenditures				
Current:				
Instruction	652,484	652,484	1,640,140	(987,656)
Support Services:				
Student	61,988	61,988	136,723	(74,735)
Instruction Staff	96,878	96,878	864,159	(767,281)
District Administrative	-	-	-	-
School Administrative	-	-	-	-
Business	-	-	-	-
Plant Operation and Maintenance	16,466	16,466	16,466	-
Student Transportation	73,141	73,141	106,495	(33,354)
Contingency	-	-	-	-
Community Service Activities	-	-	183,907	(183,907)
Total Expenditures	900,957	900,957	2,947,890	(2,046,933)
Excess (Deficit) of Revenues Over Expenditures	(42,538)	(42,538)	18,449	60,987
Other Financing Sources (Uses)				
Operating Transfers In	42,538	42,538	5,570	(36,968)
Operating Transfers Out	-	-	(13,655)	(13,655)
Total Other Financing Sources (Uses)	42,538	42,538	(8,085)	(50,623)
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	-	-	10,364	10,364
Fund Balance, July 1, 2007 <Restated>	-	-	131,146	131,146
Fund Balance, June 30, 2008	\$ -	\$ -	\$ 141,510	\$ 141,510

**WEBSTER COUNTY SCHOOL DISTRICT
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES FOR BUDGETARY PROCESS
FOR THE YEAR ENDED JUNE 30, 2008**

Budgetary Process

Budgetary Basis of Accounting: Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America, except for on-behalf payments. The Kentucky Department of Education does not permit Kentucky school districts to budget on-behalf payments. All annual appropriations lapse at fiscal year-end.

As required by KRS 160.470, on or before January 31 of each year, the District commences budget preparation for the following fiscal year. Before May 30, a tentative working budget is presented to the Kentucky Department of Education. A final working budget must be prepared and adopted no later than September 30. The budget is periodically amended and adopted by the Board of Education during the fiscal year with a final budget adopted by the Board prior to June 30.

The appropriated budget is prepared by fund unit, function, program, level, object and project. The legal level of budgetary control is the fund level.

Reconciliation between the Budgetary Basis of Accounting and GAAP

General Fund

A basis difference exists in the general fund between the GAAP prescribed basis of accounting for governmental funds and the budgetary basis used by the District. The difference relates to on-behalf payments. The Kentucky Department of Education prohibits Kentucky school districts from including on-behalf payments in the budget process. Line item differences are as follows:

	General Fund BUDGET BASIS	General Fund GAAP BASIS	Difference
Revenues			
Intergovernmental - State	\$ 11,151,865	\$ 12,851,635	\$ 1,699,770
Expenditures:			
Instruction	8,272,264	9,307,880	1,035,616
Support Services:			
Student	812,666	871,112	58,446
Instructional Staff	692,926	703,552	10,626
District Administration	473,920	542,992	69,072
School Administration	968,730	1,080,308	111,578
Plant Operations Maintenance	2,157,409	2,338,059	180,650
Student Transportation	1,119,063	1,352,845	233,782

Special Revenue Fund

There were no material variances between GAAP prescribed basis of accounting for governmental funds and the budgetary basis used by the District.

**WEBSTER COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2008**

	FSPK Fund	SEEK Capital Outlay Fund	Debt Service Fund	Total Nonmajor Governmental Funds
Assets				
Cash and Cash Equivalents	\$ -	\$ -	\$ -	\$ -
Accounts Receivable	-	-	-	-
Due from Other Funds	-	-	-	-
Restricted Cash	-	-	60	60
Total Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 60</u>	<u>\$ 60</u>
Liabilities and Fund Balances				
Liabilities				
Accounts Payable	\$ -	\$ -	\$ -	\$ -
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances				
Reserved for Capital Projects	-	-	-	-
Reserved for Debt Service	-	-	60	60
Unreserved and Undesignated	-	-	-	-
Total Fund Balances	<u>-</u>	<u>-</u>	<u>60</u>	<u>60</u>
Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 60</u>	<u>\$ 60</u>

WEBSTER COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	FSPK Fund	SEEK Capital Outlay Fund	Debt Service Fund	Total Nonmajor Governmental Funds
Revenues				
From Local Sources:				
Taxes:				
Property	\$ 297,076	\$ -	\$ -	\$ 297,076
Earnings on Investments	5,703	1,979	-	7,682
Intergovernmental - State	334,096	198,170	369,021	901,287
Total Revenues	<u>636,875</u>	<u>200,149</u>	<u>369,021</u>	<u>1,206,045</u>
Expenditures				
Capital Outlay:				
Facilities Acquisition and Construction	1,950	-	-	1,950
Debt Service:				
Principal	-	-	860,540	860,540
Interest	-	-	391,821	391,821
Total Expenditures	<u>1,950</u>	<u>-</u>	<u>1,252,361</u>	<u>1,254,311</u>
Excess (Deficit) of Revenues Over Expenditures	<u>634,925</u>	<u>200,149</u>	<u>(883,340)</u>	<u>(48,266)</u>
Other Financing Sources (Uses)				
Transfers In	-	-	883,340	883,340
Transfers Out	(671,131)	(200,149)	-	(871,280)
Total Other Financing Sources (Uses)	<u>(671,131)</u>	<u>(200,149)</u>	<u>883,340</u>	<u>12,060</u>
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	<u>(36,206)</u>	<u>-</u>	<u>-</u>	<u>(36,206)</u>
Fund Balance, July 1, 2007 <Restated>	<u>36,206</u>	<u>-</u>	<u>60</u>	<u>36,266</u>
Fund Balance, June 30, 2008	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 60</u>	<u>\$ 60</u>

WEBSTER COUNTY SCHOOL DISTRICT
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES
ALL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

School	Cash Balances July 1, 2007	Receipts	Disbursements	Cash Balances June 30, 2008	Accounts Receivable June 30, 2008	Accounts Payable June 30, 2008	Fund Balances June 30, 2008
Webster County High School	\$ 98,998	\$ 342,574	\$ 325,953	\$ 115,619	-	\$ 9,106	\$ 106,513
Ashmore Scholarship	-	50,154	500	49,654	-	-	49,654
Clay Elementary	28,048	82,125	90,648	19,525	-	-	19,525
Dixon Elementary	18,041	63,722	61,799	19,964	-	-	19,964
Hogg Scholarship	3,157	48	1,010	2,195	-	-	2,195
Providence Elementary	7,860	28,529	29,751	6,638	-	202	6,436
Sebree Elementary	12,596	54,545	50,051	17,090	-	3,508	13,582
Slaughters Elementary	12,696	24,527	22,876	14,347	-	-	14,347
Waggoner Scholarship	9,941	235	500	9,676	-	-	9,676
WC Middle Athletics	11,384	19,048	16,993	13,439	-	-	13,439
TOTAL	\$ 202,721	\$ 665,507	\$ 600,081	\$ 268,147	\$ -	\$ 12,816	\$ 255,331

Note: Included in receipts and disbursements are interfund transfers of \$ 68,703.

WEBSTER COUNTY SCHOOL DISTRICT
SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES
WEBSTER COUNTY HIGH SCHOOL ACTIVITY FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	Cash Balances July 1, 2007	Receipts	Disbursements	Cash Balances June 30, 2008	Accounts Receivable June 30, 2008	Accounts Payable June 30, 2008	Fund Balances June 30, 2008
	\$ 6	\$ -	\$ -	\$ 6	\$ -	\$ -	\$ 6
Academic Team							
Agriculture	333	4,622	3,988	967	-	-	967
Annual	24,562	20,039	33,490	11,111	-	-	11,111
Art Technology	881	293	892	282	-	-	282
Athletic	10,485	67,935	51,710	26,710	-	2,648	24,062
Athletic - Boys BB	5,155	11,110	14,443	1,822	-	-	1,822
Athletic - Girls BB	1,008	7,701	3,849	4,860	-	-	4,860
Band	218	526	330	414	-	-	414
Baseball	851	1,925	2,636	140	-	-	140
Beta	1	561	426	136	-	-	136
Bookfund	-	986	335	651	-	-	651
Bookstore	260	565	564	261	-	-	261
Book Rewards	-	7,584	1,563	6,021	-	-	6,021
Calculator	177	4,759	4,936	-	-	-	-
Cheerleaders	544	11,658	8,485	3,717	-	6,458	(2,741)
Class of '08	2,416	3,911	5,791	536	-	-	536
Class of '09	1,613	5,063	6,647	29	-	-	29
Class of '10	-	1,918	1,226	692	-	-	692
Clay PTA Scholarship	-	450	136	314	-	-	314
Coffee Account	195	-	195	-	-	-	-
Cross Country - Boys	1,480	594	992	1,082	-	-	1,082
Cross Country - Girls	1,782	234	881	1,135	-	-	1,135
Culinary Skills	728	2,089	1,901	916	-	-	916
Dance Team	511	1,671	1,341	841	-	-	841
Dorothy Farmer Scholarship	210	-	210	-	-	-	-
Drinks - Teachers Lounge	485	1,315	1,376	424	-	-	424
Edna Cox Scholarship	670	-	670	-	-	-	-
F.B.L.A.	266	60	-	326	-	-	326
FCA	323	276	539	60	-	-	60
F.F.A.	602	18,717	15,431	3,888	-	-	3,888
FACS	1,298	4,669	5,270	697	-	-	697
FCCLA	2,614	872	1,578	1,908	-	-	1,908
Football	420	6,228	6,648	-	-	-	-
General Fund	168	61,418	54,823	6,763	-	-	6,763
Girls Softball	121	725	718	128	-	-	128
Graduation	2,081	-	1,544	537	-	-	537
Greenhouse	3,366	3,999	3,245	4,120	-	-	4,120
Guidance	145	2,484	2,536	93	-	-	93
I. Redman Scholarship	298	-	298	-	-	-	-
Inst. Business	2,045	298	2,343	-	-	-	-
Inst. Math	401	183	748	(164)	-	-	(164)
Inst. Science	1,524	4,309	5,120	713	-	-	713
Lance	4,404	445	2,836	2,013	-	-	2,013
Library	970	581	591	960	-	-	960
Performing Arts	184	322	459	47	-	-	47
Physical Education	578	840	391	1,027	-	-	1,027
Power Lifting	114	535	506	143	-	-	143
Project Graduation	821	16,830	16,016	1,635	-	-	1,635
Quiz Bowl	1,221	72	500	793	-	-	793
R.C.	9,918	4,266	6,582	7,602	-	-	7,602
Reach	54	-	54	-	-	-	-
Renaissance	240	5,068	3,079	2,229	-	-	2,229
Scholarships	3,425	3,198	3,580	3,043	-	-	3,043
Science Club	8	-	8	-	-	-	-
Sebree Scholarships	-	400	66	334	-	-	334
Senior Class Trip	-	31,612	30,800	812	-	-	812
Shirt Sales	-	895	895	-	-	-	-
Soccer	1,723	975	2,518	180	-	-	180
Spanish	395	385	535	245	-	-	245
Storey Scholarship	200	-	200	-	-	-	-
Student Council	56	2	58	-	-	-	-
T-Shirt	182	2,952	2,335	799	-	-	799
Tennis - Boys	350	250	348	252	-	-	252
Tennis - Girls	559	150	230	479	-	-	479
Textbook Rental	-	9,045	442	8,603	-	-	8,603
Track - Boys	208	874	990	92	-	-	92
Track - Girls	576	874	963	487	-	-	487
Trojan Bank Scholarship	1,371	-	300	1,071	-	-	1,071
Youth Experiencing Success	298	150	317	131	-	-	131
Young Politicians	900	106	500	506	-	-	506
TOTAL	\$ 98,998	\$ 342,574	\$ 325,953	\$ 115,619	\$ -	\$ 9,106	\$ 106,513

**WEBSTER COUNTY BOARD OF EDUCATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008**

FEDERAL GRANTOR PASS-THROUGH GRANTOR PROGRAM TITLE	FEDERAL CFDA#	AGENCY OR PASS- THROUGH NUMBER	FEDERAL DISBURSEMENTS/ EXPENDITURES
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
PASSED THRU STATE DEPARTMENT OF EDUCATION:			
CHILD NUTRITION CLUSTER:			
SCHOOL BREAKFAST PROGRAM	10.553	N/A	\$ 132,701
NATIONAL SCHOOL LUNCH PROGRAM	10.555	N/A	417,760
SUMMER FOOD SERVICE PROGRAM FOR CHILDREN	10.559	N/A	<u>185,973</u>
TOTAL CHILD NUTRITION CLUSTER			<u>736,434</u>
PASSED THRU STATE DEPARTMENT OF AGRICULTURE:			
FOOD DONATION (NOTE B)	10.550	N/A	<u>64,777</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>801,211</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
PASSED THRU STATE DEPARTMENT OF EDUCATION:			
TITLE I GRANTS TO LOCAL EDUCATIONAL AGENCIES	84.010	3107 3107P 3108 3147 3148 3206P	36,691 19,904 452,574 1,240 14,184 29,088 <u>553,681</u>
MIGRANT EDUCATION STATE GRANT PROGRAM	84.011	3117 3118	10,670 118,977 <u>129,647</u>
SPECIAL EDUCATION CLUSTER: SPECIAL EDUCATION - GRANTS TO STATES	84.027	3377 3377P 3378	194,090 28 261,099 <u>455,217</u>
SPECIAL EDUCATION - PRESCHOOL GRANTS	84.173	3437 3437P 3438	16,896 8,521 20,092 <u>45,509</u>
TOTAL SPECIAL EDUCATION CLUSTER			<u>500,726</u>
EDUCATION TECHNOLOGY STATE GRANTS	84.318	4256P 4257 4257P 4258	8,121 261 2,156 4,247 <u>14,785</u>

U.S. DEPARTMENT OF EDUCATION, CONTINUED

SAFE AND DRUG FREE SCHOOLS	84.186	4067P 4068	3,630 10,868 <u>14,498</u>
PARENTS AS TEACHERS	84.310	5862	<u>3,962</u>
STATE GRANTS FOR INNOVATIVE PROGRAMS	84.298	3346P 3347 3347P 3348	1,497 528 304 3,472 <u>5,801</u>
ENGLISH LANGUAGE ACQUISITION GRANTS	84.365	3458	<u>1,469</u>
VOCATIONAL EDUCATION - BASIC GRANTS TO STATES	84.048	3487 3488	5,009 9,282 <u>14,291</u>
IMPROVING TEACHER QUALITY COMPREHENSIVE READING IMPROVING TEACHER QUALITY	84.367	3907 4017 4017P 4018	28,500 32,094 20,339 81,920 <u>162,853</u>
COMPREHENSIVE SCHOOL REFORM	84.332	3086R	<u>94,061</u>
21ST CENTURY COMMUNITY LEARNING	84.287	5506S 5506P 5507	5,000 2,963 56,349 <u>64,312</u>
NORM REFERENCED TESTING	84.369	3977 3977P	851 184 <u>1,035</u>
SERVICE LEARNING	94.004	6757P 6758	273 1,441 <u>1,714</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>1,562,835</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 2,364,046</u></u>

Note A: Basis of Presentation

This schedule of expenditures of federal awards includes the federal grant activity of Webster County School District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note B: Food Donation

Nonmonetary assistance is reported in the schedule at the fair market value of the USDA food commodities received and distributed.

**WEBSTER COUNTY SCHOOL DISTRICT
BOARD MEMBERS AND ADMINISTRATIVE PERSONNEL
JUNE 30, 2008**

<u>Board Members</u>	<u>Address</u>	<u>Term Expires</u>
James Nance Chairman	Sebree, Kentucky	January 1, 2009
Lisa Preston Vice Chairman	Sebree, Kentucky	January 1, 2011
Tim McCormick	Clay, Kentucky	January 1, 2011
Steve Henry	Providence, Kentucky	January 1, 2009
Dr. E Carolyn Tucker	Dixon, Kentucky	January 1, 2009
Sandi Jackson	Providence, Kentucky	January 1, 2011

Administrative Personnel

Dr. James A. Kemp - Superintendent and Secretary of the Board

Dr. Rachel Yarbrough - Assistant Superintendent

Jamie Jones – Treasurer



Michael L. Overby, CPA, PLLC

Certified Public Accountant

2201 Westerfield Drive, Suite C

Providence, KY. 42450

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

State Committee for School District Audits
Members of the Board of Education
Webster County School District
Dixon, Kentucky

I have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Webster County School District as of and for the year ended June 30, 2008, which collectively comprise the Webster County School District's basic financial statements and have issued my report thereon dated December 12, 2008. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements prescribed by the State Committee for School District Audits, in the *Appendix I (General Audit Requirements)*, *Appendix II (State Audit Requirements)*, and *Appendix III (Electronic Submission)* of the *Independent Auditor's Contract*.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Webster County School District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Webster County School District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Webster County School District's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Webster County School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Webster County School District's financial statements that is more than inconsequential will not be prevented or detected by the Webster County School District's internal control. I consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting. (2008-1)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Webster County School District's internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies

that are also considered to be material weaknesses. However, I consider the significant deficiency described above to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Webster County School District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2008-1.

I noted certain matters that I reported to management of Webster County School District, in a separate letter dated December 12, 2008.

Webster County School District's response to the findings identified in my audit is described in the accompanying schedule of findings and questioned costs. I did not audit Webster County School District's response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of the Webster County Board of Education management, Kentucky State Committee for School District Audits, the Kentucky Department of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Michael L. Overby CPA". The signature is fluid and cursive, with the "CPA" part being more distinct and written in a slightly larger, bolder script.

Michael L. Overby CPA, PLLC
December 12, 2008



Michael L. Overby, CPA, PLLC

Certified Public Accountant

2201 Westerfield Drive, Suite C

Providence, KY. 42450

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

State Committee for School District Audits
Members of the Board of Education
Webster County School District
Dixon, Kentucky

Compliance

I have audited the compliance of Webster County School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. Webster County School District's major federal programs are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Webster County School District's management. My responsibility is to express an opinion on Webster County School District's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the audit requirements prescribed by the State Committee for School District Audits, in *Appendix I (General Audit Requirements)*, *Appendix II (State Audit Requirements)*, and *Appendix III (Electronic Submission) of the Independent Auditor's Contract*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Webster County School District's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination on Webster County School District's compliance with those requirements.

In my opinion, Webster County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of Webster County School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered Webster County School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my

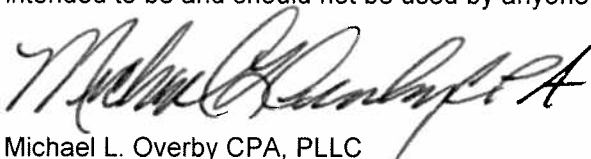
auditing procedures for the purpose of expressing my opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of Webster County School District's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

My consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Webster County Board of Education management, the Kentucky State Committee for School District Audits, Kentucky Department of Education, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Michael L. Overby CPA, PLLC". The signature is fluid and cursive, with a large initial "M" and a stylized "A" at the end.

Michael L. Overby CPA, PLLC
December 12, 2008

**WEBSTER COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the year ended June 30, 2008**

A. Summary of Audit Results

1. The auditor's report expresses an unqualified opinion on the financial statements of the Webster County School District.
2. There was one significant deficiency in internal control disclosed during the audit of the financial statements as reported in the Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*. This condition is reported as a material weakness.
3. No instances of noncompliance material to the financial statements of Webster County School District were disclosed during the audit.
4. There are no significant deficiencies in internal control disclosed during the audit of the major federal award programs as reported in the Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB A-133.
5. The auditor's report on compliance for the major federal award programs for the Webster County School District expresses an unqualified opinion.
6. There were no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as major programs included:

- Title I	84,010
- Special Education – Grants to States	84,027
- Special Education – Preschool	84,173
Child Nutrition Cluster:	
- National School Lunch	10,555
- School Breakfast	10,553
- Summer Feeding	10,559
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Webster County Board of Education was determined not to be a low risk auditee.

B. Findings-Financial Statements Audit

2008-1 Significant Deficiency:

Fixed Assets

Expenditures for the purchase of capital assets during the year ended June 30, 2008 had not been recorded in the fixed asset module for governmental and proprietary funds. This was also a finding the previous three years.

Criteria: Expenditures for the purchase of capital assets should be properly identified and promptly recorded in the fixed asset module.

Cause: The resulting omission of capital assets from the fixed asset module occurred because procedures were not in place to ensure invoices for capital expenditures are forwarded to individuals responsible for updating and reconciling the fixed asset records.

**WEBSTER COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
for the year ended June 30, 2008**

Recommendation: Procedures should be implemented to ensure all purchases and deletions of capital assets are promptly recorded in the fixed asset module.

Auditee Response: A new staff member whose primary responsibility is to track assets was employed on July 1, 2008. That individual has received training in the MUNIS fixed assets module, as well as in local tracking and accounting procedures.

C. Findings and Questioned Costs - Major Federal Award Program Audit

None

D. Schedule of Prior Audit Findings (Relative to Federal Awards)

None



Michael L. Overby, CPA, PLLC

Certified Public Accountant

2201 Westerfield Drive, Suite C

Providence, KY. 42450

State Committee for School District Audits
Members of the Board of Education
Webster County School District
Dixon, Kentucky 42409

In planning and performing my audit of the financial statements of the Webster County School District for the year ended June 30, 2008, I considered the District's internal control structure to determine my auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during my audit, I became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes my comments and suggestions regarding those matters. A separate report dated December 12, 2008, contains my report on reportable conditions and material weaknesses in the District's internal control structure. This letter does not affect my report dated December 12, 2008 on the financial statements of the Webster County School District.

I appreciate the opportunity to bring these comments to your attention. I have already discussed many of these comments and suggestions with various District personnel, and I will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Michael L. Overby CPA, PLLC
December 12, 2008

**WEBSTER COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER POINTS
FOR THE YEAR ENDED JUNE 30, 2008**

Current Year Management Letter Points

1) Purchase Orders

I noted instances of purchase orders not being prepared properly. Purchase orders are to be used as documentation that a purchase is properly authorized, not merely an additional form to be attached to an invoice indicating approval. Except for purchases made on the same day, purchase orders should pre-date the vendor's invoice and the check date. Not only does the proper use of purchase orders and in the control of school expenses, it also protects purchases from the possibility of being denied reimbursements of purchases for school purposes. (Relates to WCHS, Clay, Dixon, and Slaughters).

Recommendation: I recommend that purchase orders be utilized and properly completed as required by the "Red Book."

Response: Schools will be directed to comply with all rules of the "Red Book" in relation to purchase orders. Specifically, they will be directed to issue purchase orders before invoices and payments.

2) Required Forms

The KDOE "Red Book" requires use of specific forms (or reasonable facsimiles) for certain activities such as: (1) Multiple receipts, (2) Fundraising, (3) Inventory control, (4) Internal account – budgets, (5) Transfers, (6) Ticket sales, and (7) Annual financing reports. I noted instances where it appeared that these forms were either not completed or completed incorrectly.

Multiple Receipts: Many completed by teachers (All Schools)

Fundraising: Same forms were either not used or used incorrectly. (Clay, Dixon)

Inventory Control: Some forms were either not used or used incorrectly. (Dixon)

Internal Account – Budgets: Some forms were either not used or used incorrectly. (Middle School Athletics).

Transfers: Some transfer forms not approved by principal.

Ticket Sales: Some forms not completed correctly. Athletic director signing all forms as person responsible for sales and not the person actually selling tickets. (WCHS, Middle School Athletics).

Annual Financial Report: Report not completed and signed. (Middle School Athletics).

Recommendation: I recommend that the principal and secretary at each school review the "Red Book" and comply with its requirements regarding the use of these forms.

Response: Individual schools will be directed to follow all requirements of "Red Book" in relation to these required forms.

3) Daily Bank Deposits

Per the "Red Book" all money collected by a teacher/sponsor shall be given to the school treasurer on the day collected. I noted that this is not always being performed at some of the schools. (Clay)

Recommendation: I recommend that teacher/sponsor give money collected to the school treasurer daily in compliance with the "Red Book"

Response: Principals will be directed to direct teachers to turn in money to treasurer on the day it is collected.

4) **Booster Clubs**

The KDOE "Red Book" requires booster clubs to submit the names of club officers to the principal at the beginning of the school year in addition, an annual financial report shall be submitted to the principal by June 30. Report receipts from admissions, fundraisers, dues, concession sales, and other categories; expenditures by payee, and beginning and ending balances. One of the schools tested was not in substantial compliance with these requirements. (Relates to WCHS).

Recommendation: I recommend the principals increase their efforts in obtaining the required information from booster clubs.

Response: Principals will be directed to obtain required information from all booster clubs. Principals will also be directed to receive signed and dated budgets and reports.

5) **Fixed Assets**

Governmental accounting standards require that the District record and account for changes in its fixed assets, including depreciation. I noted deficiencies in the recording of fixed assets, specifically, the incorporation of the fixed assets from the Providence Independent School District following the merger, and fixed assets not being recorded on the fixed asset schedule. Also, the tagging of the fixed assets has been inconsistent with the numerical sequence of the tags. A fixed asset policy has been adopted to provide for the asset policy and controls include guidelines and procedures for centralized recording of additions and deletions to the District's fixed asset. Noncompliance with the policy and its internal controls provides opportunities for the undetected loss of assets.

Recommendation: I recommend strict adherence to the District's fixed asset procedures. I also recommend all fixed assets be retagged using a consistent system of number with the corresponding school location numbers being incorporated into the number.

Response: A full-time employee has been hired to be responsible for all recording of fixed asset additions and deletions and for the consistency of tags being used.

6) **Deficit Account Balance**

The KDOE "Red Book" requires that no school activity fund shall end the fiscal year, June 30, with a deficit balance. Receivables and payables should be included in the end of year balance. In the event of a fund deficit, the Board is responsible for all financial obligations of the District including those incurred by school principals or their agents. I note on (1) activity account which ended the year with a deficit balance. (WCHS)

Recommendation: I recommend purchase orders not be approved unless funds are available to cover the expense.

Response: Principals and secretaries are instructed to be aware of fund balance prior to encumbrancing a purchase order. Purchase orders will not be encumbranced unless funds are available to cover the total expense. (i.e. including shipping and handling, etc.)

**WEBSTER COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER POINTS
FOR THE YEAR ENDED JUNE 30, 2008**

PRIOR YEAR MANAGEMENT LETTER POINTS

- 1) Authority Sited – The KDOE “Red Book” requires the use of specific forms (or reasonable facsimiles) and various procedures for certain activities.

Problem identified – Our audit procedures revealed the following forms or procedures were not being used correctly.

	<u>WCHS</u>	<u>Clay</u>	<u>Dixon</u>	<u>Sebree</u>	<u>Slaughters</u>	<u>MS Athletic</u>
Invoice dated before PO	X	X	X		X	
Multiple receipt forms not used properly	X	X	X		X	X
School Fund raising worksheets not used properly			X			
Inventory control worksheets not used properly			X		X	
Internal account and activity fund budget forms not used properly						X
Deposits not made timely (Daily if over \$100)	X				X	X
Petty cash not accounted for properly				X		
Ended year with some deficit funds			X		X	
Ticket sales not accounted for properly			X			
General fund paid for meals for teachers PD				X	X	
Transfer not reported properly						X
Deposit slips not initialed showing verification by another		X				
Credit card sign in/out sheet not used properly				X		
Expense reports not used properly		X				

Recommendation – We recommend the principles and secretaries review the “Red Book” and comply with its requirements regarding the use of these forms. We suggest the secretaries attend training or have in-house training to ensure compliance.

Response – Principal and secretaries at each of the District’s schools have reviewed the “Red Book” and have been directed to follow requirements. A change in staff scheduling will ensure that deposits are made in a timely manner. Staff will train volunteers and have oversight at various activities and functions to make sure that proper forms are used, sales and tickets accounted for properly, and that activity costs are not inadvertently charged to an incorrect fund source.

6/30/2008: See Current Year Comment

- 2) Authority cited – Per KRS 160.105 and KAR 3:030, the school district shall provide insurance coverage on each building owned and this coverage must be an amount equal to the estimated replacement cost as provided by the state.

Problem identified – The District is not adequately insured.

Recommendation – We recommend additional insurance be obtained.

Response – Our property insurer has been informed of the discrepancy between the stated value and the replacement value of each of our district properties as based on data provided by the state. This oversight will be corrected within 30 days.

6/30/2008: In Compliance – Adequate Insurance Coverage

- 3) Authority cited –KRS 160.470(6)(a) requires the board to adopt a tentative working budget for the subsequent fiscal year by May 30 of each calendar year.

Problem identified – The District did not approve the tentative working budget until June 26, 2007.

Recommendation –We recommend the District make certain the working budget is approved by May 30.

Response – The tentative budget for 2007-2008 was approved as indicated on June 26, 2007. The Webster County School District received no SEEK tentative or timely federal program data from KDE. This condition was due, mostly likely, to the absorption (merger) of the former Providence Independent School District. The months of May and June were spent in negotiation with various program administrators at the Agency. Prior to May 30, 2007, the district superintendent received verbal permission from the merger officer in KDE (Kay Kennedy appointed by Interim Commissioner Kevin Noland) for an indefinite extension of time. The tentative budget was approved by the Board on June 26, 2007.

6/30/2008: In Compliance – Tentative Working Budget Approved May 22, 2008

- 4) We noted that the District paid sales tax on a purchase from Wal-Mart.

Recommendation – The District is tax exempt and we recommend greater care be given to make certain the District does not pay any tax they do not owe.

Response – Sales tax was inadvertently paid on a single purchase made by one department. The program administrator and secretary have been reminded that such reimbursement is impermissible and have been directed to recover the expense.

6/30/2008: In Compliance – No Sales Tax Paid on Purchases

- 5) We noted instances where the District paid late fees on a credit card statement.

Recommendation – We recommend the District pay bills in a more timely manner to avoid additional unnecessary fees.

Response – Procedures have been set in place to require timely processing of charge card and other reimbursement expenses.

6/30/2008: In Compliance – No Late Fees Paid on Credit Cards